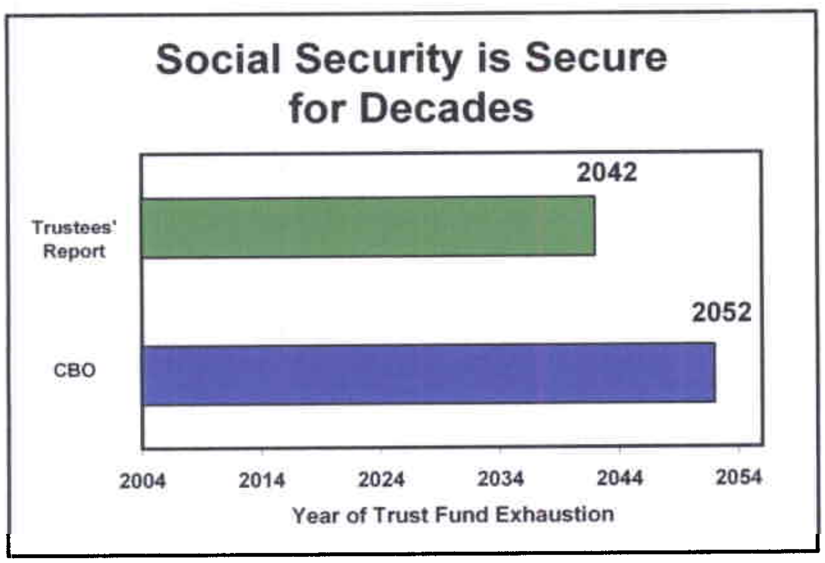
Financial Outlook for Social Security: A Challenge, Not a Crisis

Social Security is Sustainable

Social Security is effective and popular. Thus, in order to persuade the public that Social Security should be dramatically cut back and personal savings be made to substitute for guaranteed benefits, privatization advocates have sought to portray Social Security as unaffordable, unsustainable, and facing an imminent financial crisis. But a close look at the facts reveals otherwise.

Both the Social Security actuaries, in the annual Trustees Report, and the Congressional Budget Office make projections of the long-range financial status of Social Security. Both projections show surpluses for several decades, and a manageable problem over the long-range projection period. In fact, the CBO estimates show that **the long-range deficit in Social Security is only about half as large as the most recent estimate of the Social Security Board of Trustees**. CBO estimates a deficit of 1.00 percent of taxable payroll, while the Trustees project a deficit of 1.89 percent of payroll. (Put in the simplest terms, under the CBO projection, the 6.2 percent payroll tax would have to be raised one-half of one percent for employees and employers each to close the long-term deficit.)



Moreover, **the Trust Funds will be able to pay full benefits for almost 50 years**, until 2052 – a decade longer than projected by the actuary. These results reinforce that Social Security faces financial challenges -- but is not in a crisis. Based on the CBO estimates, the challenges are even more manageable than previously thought.

Is Social Security Facing an Urgent Crisis?

The CBO projections confirm the actuary's findings that there is no crisis in Social Security, and that we are decades away from experiencing shortfalls in the program. The CBO report, in combination with the annual reports of the Trustees, continues a decade-long trend of stability and even improvement in the long-range forecast. Here are the three key dates:

- The year that *interest* on the Trust Funds' assets is first tapped to supplement tax revenues in order to pay for benefits: **CBO estimates 2019, the Trustees estimate 2018**. However, the Trust Funds will continue to run annual surpluses for another two decades.

- The year that the *bonds* held in the Trust Funds begin to be redeemed to supplement payroll taxes in order to pay for benefits: **CBO estimates 2033, the Trustees project 2028**.

- The year that the Trust Funds' reserves are fully drawn down: **CBO projects 2052, a full ten years longer than the Trustees' 2042 date.**

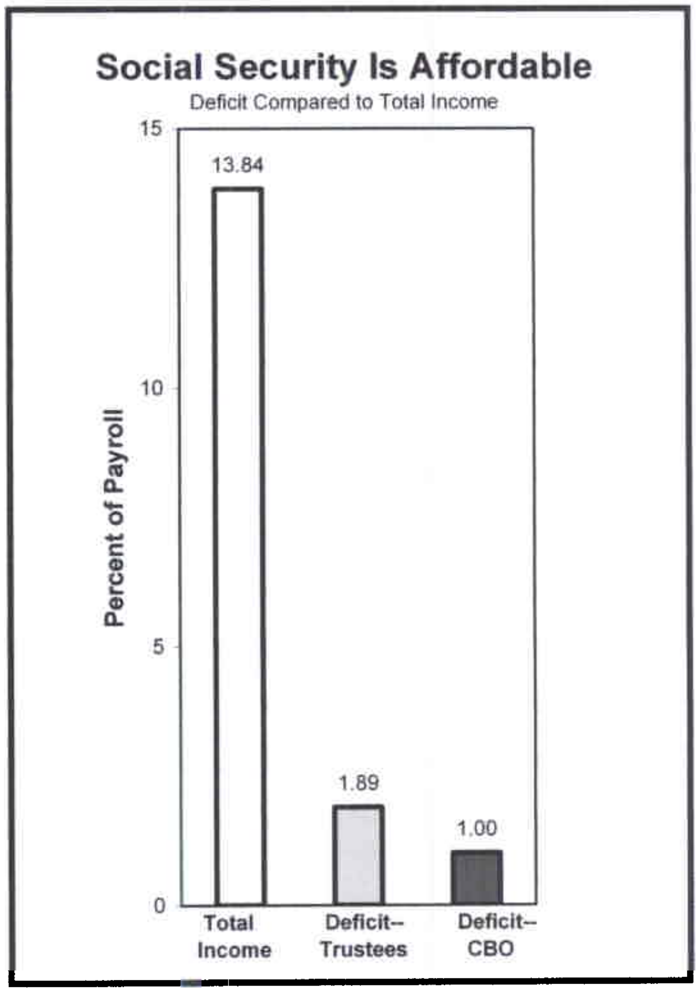
  Note that this does not mean that benefits can no longer be paid, however. Social Security will continue to receive **payroll tax contributions. These will be sufficient to pay about 80 percent of benefits due in years following 2052, according to CBO; the Trustees estimate that ongoing revenues can finance about 70 percent of benefits due.**

Is Social Security Going "Bankrupt"?

It is **incorrect** to say that Social Security will become "bankrupt" in 2018 or 2019. In 2018, Social Security is projected to have about $5.3 trillion in reserves available to supplement payroll tax revenue, according to the Trustees report. Those reserves will continue to grow, reaching a peak of $6.6 trillion in 2027. In fact, Social Security will not be "bankrupt" even in 2042 or 2052. This is because payroll taxes will still be coming in to the Trust Funds to finance benefits.

What is the Size of the Deficit in Social Security?

The deficit in Social Security is traditionally measured as the "actuarial balance" over the long-range projection period, defined as the next 75 years. This can be expressed in three ways, all of which are equivalent:



- *Percent of Taxable Payroll*: **CBO estimates 1.00 percent of payroll, Trustees estimate 1.89 percent of payroll**.

- *Present Value*: Shortfall of **$3.7 trillion**, against a total GDP over the same period of about $570 trillion, according to the Trustees. The CBO's projections suggest a shortfall of about $2 trillion. ("Present value" is a way to sum up costs occurring over many years into one figure. It is the amount of money needed today, which with future interest would be able to cover the projected deficits in Social Security.)

- *Percent of Overall Economy*: The CBO projections suggest that the Security deficit represents **0.4 percent of GDP** over a 75-year period, while the Trustees estimate a deficit of **0.7 percent of GDP**.

Prepared by the Democratic Staff of the Committee on Ways and Means, December 17, 2004
Charles B. Rangel, Ranking Member
Robert T. Matsui, Ranking Member, Social Security Subcommittee